



CA1
MT76
- A66



NATIONAL ENERGY BOARD ADDENDUM TO REASONS FOR DECISION

Interprovincial Pipe Line Limited

Application dated 5 September 1986
for new tolls effective 1 January 1987

RH-4-86

June 1987



**NATIONAL ENERGY BOARD
ADDENDUM TO
REASONS FOR DECISIONS**

Interprovincial Pipe Line Limited

Application dated 5 September 1986
for new tolls effective 1 January 1987

RH-4-86

June 1987

© Minister of Supply and Services Canada 1987

Cat. No. NE 22-1/1987-6-1E
ISBN 0-662-15670-6

This report is published separately
in both official languages.

Copies are available on request from:

Regulatory Support Office
National Energy Board
473 Albert Street
Ottawa, Canada
K1A 0E5
(613) 998-7204

Printed in Canada

Ce rapport est publié séparément
dans les deux langues officielles.

Exemplaires disponibles auprès du:

Bureau du soutien de la réglementation
Office national de l'énergie
473, rue Albert
Ottawa (Canada)
K1A 0E5
(613) 998-7204

Imprimé au Canada

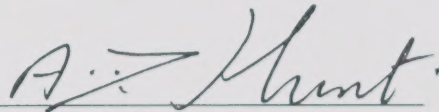
The Addendum

In June 1987, the National Energy Board issued its Reasons for Decision on an application by Interprovincial Pipe Line Limited (IPL) for, inter alia, new tolls for 1987. As explained on page x of the Decision, certain figures for the determination of the revenue requirement were not contained therein and were to be calculated by IPL in accordance with the Reasons and Order No. TO-2-87.

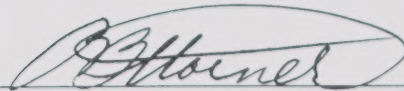
Under cover of letter dated 12 August 1987, IPL filed with the Board the required revenue requirement, supporting working papers, and toll calculations.

The Board has reviewed the figures submitted by IPL and, except as noted below, has found them to be in accordance with Order TO-2-87 and its Reasons for Decision. Consequently, in the interest of completeness, the Board is now issuing this addendum to its Decision. The addendum comprises the already-issued final toll Order TO-4-87 as well as the tables listed on page 2 which show the approved figures. For details regarding the nature of the adjustments shown in the tables, the reader is referred to the Reasons for Decision and, more specifically, to the footnotes to the tables contained therein.

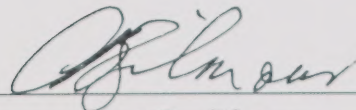
In its review of IPL's submission, the Board noted some errors in the Company's determination of the revenue requirement. The Board concluded, however, that the items in question had an immaterial effect on IPL's overall revenue requirement and the resulting tolls, and therefore found the figures filed by the Company to be acceptable in the circumstances. Notwithstanding that decision, the Board did not accept as the approved rate of return on Older System rate base the figure of 10.39 percent calculated by IPL. The rate of return on Older System rate base approved by the Board is 10.38 percent. In this regard, the Board draws the reader's attention to Table 5-2 herein. This table shows the derivation of the approved figure of 10.38 percent, and, in a footnote, advises that the figures in the other tables included in the addendum do not reflect the approved rate of return on rate base of 10.38 percent, since the revenue requirement and tolls submitted by the Company were accepted as filed.



A.D. Hunt
Presiding Member



R.B. Horner, Q.C.
Member



A.B. Gilmour
Member

25 September 1987
Ottawa, Canada.

Table ¹		Page No.
2-1	Revenue Requirement	3
2-2	Cost of Service Summary	4
3-1	Summary of Rate Base - Older System	5
3-2	Summary of Rate Base - Montreal Extension	5
3-3	Determination of Working Capital- Older System	6
3-4	Determination of Working Capital-Montreal Extension	7
5-2	Approved Deemed Average Capital Structure and Rates of Return for the Test Year - Older System	8
5-4	Approved Average Capital Structure and Rates of Return for the Test Year-Montreal Extension	8
5-5	Provision for Income Taxes and Deferred Income Taxes	9
6-1	Operating Expenses	10
8-2	Surcharge Revenue Requirement Methodology for NGL	11
8-3	Surcharge Revenue Requirement Methodology for Refined Products	11
Order No.		
TO-4-87	Final Toll Order	12

1. The tables are numbered as they were in the Reasons for Decision dated June 1987.

Table 2-1
Revenue Requirement
(\$000)

Older System	Application	Adjustments	NEB Approved
Cost of Service Including			
Income Taxes	160,184	(4,728)	155,456
Cost of Capital	<u>53,156</u>	<u>(4,794)</u>	<u>48,362</u>
Gross Revenue Requirement	213,340	(9,522)	203,818
Less: Other Revenue	451	(8) ¹	443 ¹
Cost Allocation			
Adjustment	<u>250</u>	<u>629</u>	<u>879</u>
Net Revenue Requirement	<u>212,639</u>	<u>(10,143)</u>	<u>202,496</u>
Montreal Extension			
Cost of Service Including			
Income Taxes	17,008	233	17,241
Cost of Capital	<u>11,491</u>	<u>1</u>	<u>11,492</u>
Gross Revenue Requirement	28,499	234	28,733
Less: Other Revenue	<u>1,050</u>	<u>(62) ¹</u>	<u>988 ¹</u>
Net Revenue Requirement	<u>27,449</u>	<u>296</u>	<u>27,745</u>
Total System Net Revenue Requirement	<u>240,088</u>	<u>(9,847)</u>	<u>230,241</u>

¹ This figure was revised from that shown in the Board's June 1987 Reasons for Decision to reflect the effect on this item of decisions made by the Board regarding other items in the report.

Table 2-2
Cost of Service Summary
(\$000)

Older System	Application	Adjustments	NEB Approved
Total Operating Expenses ¹	119,317	477	119,794
Provision for Depreciation and Amortization	24,471	(353)	24,118
Other Income Deductions	279	(232)	47
Overhead and Direct Labour Capitalized	(4,965)	235	(4,730)
Administrative Charge to Lakehead	(8,145)	155	(7,990)
Direct and Administrative Charge to IPL(NW)	(2,460)	(140)	(2,600)
Other Deductions from Cost of Service	(358)	(409)	(767)
Cost of Service			
Before Income Taxes	128,139	(267)	127,872
Provision for Income Taxes ²	32,045	(4,461)	27,584
Total Cost of Service	<u>160,184</u>	<u>(4,728)</u>	<u>155,456</u>
Montreal Extension			
Total Operating Expenses ¹	10,096	233	10,329
Provision for Depreciation and Amortization	6,912	—	6,912
Cost of Service			
Before Income Taxes	17,008	233	17,241
Provision for Income Taxes	—	—	—
Total Cost of Service	<u>17,008</u>	<u>233</u>	<u>17,241</u>

¹ See Table 6-1.

² See Table 5-5.

Table 3-1
Summary of Rate Base - Older System
(\$000)

Assets in Service	Application	Adjustments	NEB Approved
Transportation Plant	734,174	(13,440)	720,734
Other Plant	187	—	187
Leasehold Improvements	861	—	861
Plant Leased to Others	982	—	982
Adjustment:			
Leasehold Improvements			
Non-Carrier Floor Space	(10)	—	(10)
Total Assets in Service	<u>736,194</u>	<u>(13,440)</u>	<u>722,754</u>
Accumulated Depreciation			
Transportation Plant	(264,931)	125	(264,806)
Other Plant	(117)	—	(117)
Leased Facilities	(258)	—	(258)
Adjustment:			
Leasehold Improvements			
Non-Carrier Floor Space	7	—	7
Total Accumulated Depreciation	<u>(265,299)</u>	<u>125</u>	<u>(265,174)</u>
Net Assets in Service	470,895	(13,315)	457,580
Allowance for Working Capital¹	<u>8,418</u>	<u>(535)</u>	<u>7,883</u>
Total Rate Base - Older System	<u>479,313</u>	<u>(13,850)</u>	<u>465,463</u>

¹ See Table 3-3.

Table 3-2
Summary of Rate Base - Montreal Extension
(\$000)

	Application	Adjustments	NEB Approved
Assets in Service	238,790	—	238,790
Accumulated Depreciation	(131,665)	—	(131,665)
Net Assets in Service	107,125	—	107,125
Allowance for Working Capital¹	<u>673</u>	<u>9</u>	<u>682</u>
Total Rate Base - Montreal Extension	<u>107,798</u>	<u>9</u>	<u>107,807</u>

¹ See Table 3-4.

Table 3-3
Determination of Working Capital
Older System
(\$000)

	Application	Adjustments	NEB Approved
Cost of Service Including Income Taxes ¹	160,184	(4,728)	155,456
Cash Exclusions and Non-Cash Items Included in Above			
- Amortization of Toll Hearing Costs	(120)	(60)	(180)
- Provision for Depreciation and Amortization	(24,471)	353	(24,118)
- Amortization of Non-Carrier Leasehold Improvements	4	-	4
- Depreciation and Amortization Recovered on Charges to Lakehead	723	11	734
- Depreciation and Amortization Recovered on Charges to IPL(NW)	3	34	37
- Provision for Deferred Income Taxes	(9,845)	446	(9,399)
- Insurance Expense	(1,306)	-	(1,306)
- Oil Loss Expense	(2,921)	(563)	(3,484)
Cost of Service for Working Capital Allowance	<u>122,251</u>	<u>(4,507)</u>	<u>117,744</u>
Cash Working Capital			
19/365 x 122,251	6,364	(235)	
19/365 x 117,744			6,129
Operating Materials and Supplies Inventories	670	-	670
Prepaid Insurance	512	-	512
Employee Mortgages	572	-	572
Deferred Toll Hearing Costs	<u>300</u>	<u>(300)</u>	<u>-</u>
Allowance For Working Capital	<u>8,418</u>	<u>(535)</u>	<u>7,883</u>

¹ See Table 2-2.

Table 3-4
Determination of Working Capital
Montreal Extension
(\$000)

	Application	Adjustments	NEB Approved
Cost of Service ¹	17,008	233	17,241
Cash Exclusions and Non-Cash Items Included in Above			
– Provision for Depreciation and Amortization	(6,912)	–	(6,912)
– Insurance Expense	(393)	–	(393)
– Oil Loss Expense	(253)	(45)	(298)
Cost of Service for Working Capital Allowance	<u>9,450</u>	<u>188</u>	<u>9,638</u>
Cash Working Capital			
17/365 x 9,450	440	9	
17/365 x 9,638			449
Operating Materials and Supplies Inventories	79	–	79
Prepaid Insurance	<u>154</u>	<u>–</u>	<u>154</u>
Allowance For Working Capital	<u>673</u>	<u>9</u>	<u>682</u>

¹ See Table 2-2.

Table 5-2
Approved Deemed Average Capital Structure
and Rates of Return for the Test Year
Older System

	Amount (\$000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt – Funded	226,251	40.50	10.47	4.24
– Unfunded	<u>46,731</u>	<u>8.37</u>	10.00	<u>.84</u>
Total Debt Capital	272,982	48.87		5.08
Deferred Income Taxes	62,180	11.13	–	–
Common Equity	<u>223,441</u>	<u>40.00</u>	<u>13.25</u>	<u>5.30</u>
Total Capitalization	<u>558,603</u>	<u>100.00</u>		
Rate of Return on Rate Base				<u>10.38¹</u>

¹ As is shown, the approved rate of return on rate base for the Older System is 10.38 percent. However, in its submission of 12 August 1987, IPL calculated the rate to be 10.39 percent and used that rate in its determination of the revenue requirement and resulting tolls. As a result of the Board's decision to accept the revenue requirement and tolls submitted by IPL, the other tables of this addendum reflect the Company's use of a rate of return on rate base of 10.39 percent for the Older System.

Table 5-4
Approved Average Capital Structure
and Rates of Return for the Test Year
Montreal Extension

	Amount (\$000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt – Funded	118,764	98.33	10.81	10.63
– Other	<u>366</u>	<u>0.30</u>	10.00	<u>.03</u>
Total Debt Capital	119,130	98.63		10.66
Deferred Income Taxes	<u>1,646</u>	<u>1.37</u>	–	–
Total Capitalization	<u>120,776</u>	<u>100.00</u>		
Rate of Return on Rate Base				<u>10.66</u>

Table 5-5
Provision for Income Taxes and Deferred Income Taxes
(\$000)

Provision for Income Taxes - Older System	Application	NEB Approved
Rate Base	<u>479,313</u>	<u>465,463</u>
Return	53,156	48,362
Less: Return Related to Interest	<u>23,103</u>	<u>23,692</u>
Return Related to Equity	30,053	24,670
Adjustments for Permanent Differences		
Depreciation of Land Rights	273	273
Depreciation of Allowance for Equity		
Funds Used During Construction (AEDC)	447	439
Amortization of Debt Discount and		
Issue Expense on Long-Term Debt		
– Series B-F	117	117
Other Non-Deductible Items	20	20
Taxable Gain on Debt Reacquired	66	66
Accounting Capital Gain	<u>(132)</u>	<u>(132)</u>
Income Tax Base	<u>30,844</u>	<u>25,453</u>
Provision for Income Taxes		
= Income Tax Base X .50955/[1-.50955]	<u>32,045</u>	
= Income Tax Base X .52009/[1-.52009]		<u>27,584</u>
Current Provision for Deferred Income Taxes		
Estimated Depreciation	37,028	36,676
Depreciation of Land Rights	(273)	(273)
Depreciation of AEDC	(447)	(439)
Amortization of Hearing Costs	120	180
Amortization of Debt Discount and		
Issue Expense on Long-Term Debt		
– Series B-F	117	117
– Series G	127	127
– Series H	–	73
Capitalized General and Administrative		
Overhead	(2,185)	(1,860) ¹
Capital Cost Allowance	(47,869)	(47,522)
Allowance for Interest During		
Construction	(5,675)	(5,151)
Other	<u>(264)</u>	<u>–</u>
Net Timing Differences	<u>(19,321)</u>	<u>(18,072)</u>
Current Provision for Deferred Income Taxes		
@ .50955	<u>(9,845)</u>	
@ .52009		<u>(9,399)</u>

¹ This figure was revised from that shown in the Board's June 1987 Reasons for Decision to reflect the effect on this item of decisions made by the Board regarding other items in the report.

Table 6-1
Operating Expenses
(\$000)

Older System	Application	Adjustments	NEB Approved
Salaries and Wages	26,758	120	26,878
Operating Fuel and Power Costs	48,740	(388)	48,352
Materials and Supplies	3,839	64 ¹	3,903 ¹
Outside Services	8,535	248 ¹	8,783 ¹
Other Expenses	5,669	(330)	5,339
Amortization of Toll			
Hearing Costs	120	60	180
Oil Loss	2,921	563	3,484
Law Expenses	245	—	245
Rent	4,344	(40)	4,304
Employee Benefits	5,076	(120)	4,956
Insurance	1,306	—	1,306
Taxes Other Than Income Taxes	11,764	300	12,064
Miscellaneous	<u>—</u>	<u>—</u> ¹	<u>—</u> ¹
Total	<u>119,317</u>	<u>477</u>	<u>119,794</u>
Montreal Extension			
Salaries and Wages	1,992	9	2,001
Operating Fuel and Power Costs	815	73	888
Materials and Supplies	266	25 ¹	291 ¹
Outside Services	766	90 ¹	856 ¹
Other Expenses	459	—	459
Oil Loss	253	45	298
Law Expenses	25	—	25
Rent	363	—	363
Employee Benefits	378	(9)	369
Insurance	393	—	393
Taxes Other Than Income Taxes	4,386	—	4,386
Miscellaneous	<u>—</u>	<u>—</u> ¹	<u>—</u> ¹
Total	<u>10,096</u>	<u>233</u>	<u>10,329</u>
Total System	<u>129,413</u>	<u>710</u>	<u>130,123</u>

¹ These figures changed from those shown in the June 1987 Reasons for Decision to reflect the assignment of the forecast cost of IPL's fillet weld examination program to the appropriate operating accounts per the Board's instructions.

Table 8-2
Surcharge Revenue Requirement Methodology
for NGL

Capital-Related Costs Including Return	\$ 1,310,000
Additional Operating Costs	<u>128,000</u>
Total Special Facility Costs	\$ 1,438,000
Plus: Condensate Shrinkage Loss	90,102
Less: NGL Power-Cost Credit	805,522
Tankage Credit	<u>620,975</u>
Net NGL Surcharge Revenue Requirement	\$ <u>101,605</u>

Table 8-3
Surcharge Revenue Requirement Methodology
for Refined Products

Capital-Related Costs Including Return	\$ 904,000
Additional Operating Costs	<u>412,000</u>
Total Special Facility Costs	\$ 1,316,000
Less: Refined Products Power-Cost Credit	483,242
Tankage Credit	<u>847,311</u>
Net Refined Products Surcharge Revenue Requirement	\$ <u>(14,553)</u>

ORDER NO. TO-4-87

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and

IN THE MATTER OF an application by Interprovincial Pipe Line Company Limited ("Interprovincial") dated 5 September 1986 for certain orders respecting tolls and tariffs pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-J1-11.

B E F O R E:

A.D. Hunt
Presiding Member

R.B. Horner, Q.C.
Member

On Wednesday the 26th
day of August, 1987.

A.B. Gilmour
Member

WHEREAS an application dated 5 September 1986, as revised, was made to the Board by Interprovincial, seeking, inter alia, Orders under Part IV of the National Energy Board Act fixing the tolls and tariffs Interprovincial may charge for or in respect of the transportation of crude oil and other liquid hydrocarbons effective 1 January 1987;

AND WHEREAS the Board issued, on 22 December 1986, Order No. TOI-2-86, stipulating therein tolls to be charged by Interprovincial on an interim basis commencing 1 January 1987;

AND WHEREAS the Board heard the evidence and submissions of Interprovincial and all interested parties with respect to the application at a public hearing held pursuant to Board Order No. RH-4-86 which commenced in Ottawa on 2 December 1986;

AND WHEREAS the Board set out its decisions on the application in its Reasons for Decision dated June 1987, and issued Order No. TO-2-87 with respect thereto;

AND WHEREAS the Board directed Interprovincial to calculate certain components of its revenue requirement and file tolls ("ordered tolls") conforming with the decisions set out in the Reasons for Decision dated June 1987;

AND WHEREAS Interprovincial has calculated the components of the revenue requirement and designed the ordered tolls in a manner satisfactory to the Board;

AND WHEREAS the Board has determined that the ordered tolls are just and reasonable;

IT IS ORDERED THAT:

1. Interprovincial shall file with the Board, by 11 September 1987, tariffs incorporating the ordered tolls, as well as appropriate changes to reflect, inter alia, the new tariff NEB numbers.
2. Effective 1 September 1987 tariffs NEB No. 134, 135, 136 and 137 and Board Order No. TOI-2-86 shall be revoked and shall be replaced by the ordered tolls and tariffs.
3. The tolls filed pursuant to paragraph 1 above shall come into effect 1 September 1987 and shall not extend beyond 31 December 1987. Unless otherwise directed by the Board, commencing 1 January 1988 the tolls filed pursuant to subparagraph 3 (c) of Board Order No. TO-2-87 shall come into effect.
4. Any tolls and tariffs inconsistent with any Order of the Board, including this Order, are hereby disallowed.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

